

Message Text

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C O N F I D E N T I A L STATE 104036 TOSEC 110373

EXDIS - FROM UNDER SECRETARY MAW

E.O. 11652: GDS TAGS: OVIP (SECRETARY) EIND EINV EMIN PFOR PE

SUBJECT: STATE OF PLAY ON MARCONA

1. SUMMARY: MY JUST-CONCLUDED ROUND OF TALKS IN LIMA REVEALED THAT PERU'S BALANCE OF PAYMENTS CRISIS SEVERELY LIMITS AVAILABILITY OF CASH FOR SETTLEMENT, AND THAT SEVERAL KEY DIFFERENCES HAVE ARISEN OVER INTERPRETATION OF JOINT FRAMEWORK FOR MARCONA SETTLEMENT. IN ATTEMPT TO BREAK IMPASSE, I PLAN TO EXPLORE WITH COMPANY POSSIBLE WAYS TO INCREASE SELF-FINANCING ASPECTS OF PACKAGE AND TO ELIMINATE REMAINING POINTS OF FRICTION. END SUMMARY.

2. DESPITE OBVIOUS DESIRE TO SETTLE DISPUTE AND TO ABIDE BY FRAMEWORK DEVELOPED WITH ME APRIL 5, POOR INTERNAL COMMUNICATION AND BICKERING WITHIN THE GOP -- COMPOUNDED BY CABINET PREPARATIONS FOR MAJOR DOMESTIC POLITICAL TRIP BY THE PRESIDENT -- PREVENTED THE GOP FROM COMING TO GRIPS WITH THE VARIOUS STEPS REQUIRED TO CONCLUDE AN AGREEMENT DURING MY FOUR-DAY STAY.

3. AGREEMENT WAS REACHED ON THE LANGUAGE FOR A JOINT
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COMMUNIQUE AND AN EXCHANGE OF NOTES TO CONSTITUTE A

QUITCLAIM. SUBSTANTIAL PROGRESS WAS ALSO MADE ON THE TERMS OF A THREE-YEAR CONTRACT FOR IRON ORE SALES TO THE U.S. MARKET, WHICH WOULD PROVIDE SUBSTANTIAL FOREIGN EXCHANGE FOR PERU AS WELL AS AN OPPORTUNITY FOR MARCONA TO EARN A

SIGNIFICANT ELEMENT OF COMPENSATION.

4. CONFUSION OVER OTHER ASPECTS OF THE SETTLEMENT PACKAGE, HOWEVER, DELAYED AGREEMENT ON TRANSPORTATION AND CASH PAYMENTS TO WHICH SOME OF THE MINISTERS AND THE LOWER ECHELONS OF THE BUREAUCRACY HAVE STRONG OBJECTIONS BECAUSE THEY BELIEVE THAT THE TERMS ARE TOO GENEROUS. IN ADDITION, NEAR DESPERATE BALANCE OF PAYMENTS POSITION OF GOP, WHOSE FOREIGN EXCHANGE RESERVES ARE NOW NEGATIVE, WILL MAKE CASH PORTION OF SETTLEMENT PACKAGE DIFFICULT TO IMPLEMENT.

5. I BELIEVE A SOUND SETTLEMENT CAN STILL BE ATTAINED IF WE SUCCEED IN REDEFINING THE ORIGINAL AGREEMENT SO AS TO REDUCE THE IMMEDIATE FOREIGN EXCHANGE COSTS TO GOP WHILE RETAINING ESSENTIAL ELEMENTS OF COMPENSATION TO MARCONA. I THEREFORE INTEND TO DEVELOP, AND TO EXPLORE WITH MARCONA, A METHOD OF APPLYING PROCEEDS FROM ORE SALES TO PART OF THE CASH SETTLEMENT. I THEN PROPOSE TO EXPLORE WAYS TO COMMUNICATE THIS REDEFINED PROPOSAL TO THE GOP SO THAT IT MAY BE CONSIDERED BY FULL CABINET EARLY NEXT WEEK. SISCO

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